2018 EaP Summit, October Economic Forum, limits to Belarus’s sovereignty — digest of Belarusian analytics

Jury Drakachrust ponders upon reasons and consequences of the invitation of Aliaksandr Lukashenka to attend the Eastern Partnership Summit in Brussels on 24 November, while Dzianis Mieljancoŭ analyses benefits of the Summit for Lukashenka.

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Belarus in Focus experts observe that before the local election campaign, the Belarusian authorities are becoming more sensitive to local civic initiatives and opinions of the expert community about the information policy and national security issues.

This and more in the new edition of the digest of Belarusian analytics.

2018 EaP Summit

Lukashenka Receives an Invitation to Brussels — Grigory Ioffe analyses the media reaction to the fact that Brussels extended an invitation to Alexander Lukashenka to participate in the 25
November summit of the EU’s Eastern Partnership (EaP). The experts believe that in any case, there is a chance the EU initiative may start a new chapter in Europe’s relationship with Belarus.

**Lukashenka, For the First Time, Formally Invited to the EaP Summit** – Sources report, that the EU extended a formal invitation to Aliaksandr Lukashenka to attend the Eastern Partnership Summit in Brussels on 24 November. Jury Drakachrust ponders upon reasons and consequences of the invitation, while Dzianis Mieljancoŭ analyses benefits of the Summit for Lukashenka. TUT.by interviews experts to identify scenarios of Lukashenka’s participation in Brussels.


**Security**

**Minsk Is Trying to Establish Itself as an Equal Subject in Security Matters** – Belarus Security Blog argues that Belarus is working hard to establish itself as an independent actor in regional security matters, despite scepticism from the West and Ukraine. Strengthening of security-related ties with China is deemed to be evidence of that.
Zapad 2017: Did Belarus Lose the Information War? – Dzianis Mieljancoŭ, Minsk Dialogue, analyses the materials of the Western media and debunks the assertion of some Belarusian analysts and journalists about the ‘lost information war’. In particular, a statement that Belarus’ participation in joint military exercises with Russia had a negative impact on the international image of Belarus is not supported by the facts.

What Are the Limits to Belarus’s Sovereignty? – Grigory Ioffe sums up a wide-ranging debate about the nature and geopolitical realities of Belarusian statehood and independence inspired by the joint Russian-Belarusian Zapad 2017 war games. The analyst also mentions two facts – the Catholic conference in Minsk and registration of the Albaruthenia University office – that seemingly extend the limits of Belarus’s sovereignty.
Economy

“Because I Decided So.” Rules Underlying the Decisions in the Belarusian Economy – Kiryl Rudy, former assistant to the president for Economic Affairs, explains what social characteristics can change the rules of behavior in the economy, form a community, a risk appetite, long-term planning, switch on rational laws and lead the economy to a global highway of ‘one hundred years growth’. The article is timed to KEF 2017.

Towards the ‘Minsk Consensus’: Some Personal Reflections – Ben Slay, UNDP senior advisor, considers what the ‘Minsk Consensus’ is (or might be), and how it may be of broader use. Namely, rather than laying claims to overarching development paradigms or one-size-fits-all solutions, Belarus’s experience points to the need for pragmatic combinations of private- and public-sector governance reforms.

Unexpected Growth, Unsold Reforms and Optimism in Belarusian – Aliaksandr Čubryk, IPM Research Centre, suggests some statements on the eve of the Kastryčnicki/October Economic Forum, KEF 2017, which was held on 2-3 November in Minsk. The expert, in particular, assures that despite the fact that the authorities ceased negotiations with the IMF, they did not stop the reforms.

Belarusian Economic Review, Q2 2017 – Belarusian Economic Research and Outreach Centre (BEROC) rolls out fresh quarterly economic review. In particular, consumption continues to grow; import surpasses export; monetary policy stimulates; real exchange rate reached 5-year minimum; real salaries slowly grow while available income continues to shrink.
How Europe’s Last Dictatorship Became a Tech Hub — Ivan Nechepurenko, The New York Times, studies the growing trend of turning Belarus into a tech hub. More than 30,000 tech specialists now work in Minsk, many of them creating mobile apps that are used by more than a billion people in 193 countries. Lukashenka began to believe that the tech industry could become a magic wand to help him end the country’s chronic dependency on Russia.

Civil society

Andrej Jahoraŭ: Belarus Leads an Authoritarian Revenge in the Region — There is a clear crisis of democracy, while human rights in Belarus are in a blockade. At the same time, the European-Belarusian relations are now enveloped in a continuous mythology, according to the director of the Centre for European Transformation, Andrej Jahoraŭ. The analyst is confident that in its current state the civil society cannot
influence the EU policy.

Civil Society Has Bearing On Agenda of Belarusian Authorities – Belarus in Focus considers a case of a public campaign that has raised the attention to the situation around the death of a conscript soldier in the army. The experts conclude that civic initiatives, through social networks and the Internet, are beginning to outstrip state ideologists with traditional media and have a greater impact on public opinion.

Impact of Civic Initiatives on Local Agendas and Cultural Information Policy Has Increased – Belarus in Focus experts observe that before the local election campaign, the Belarusian authorities are becoming more sensitive to local civic initiatives and opinions of the expert community about the information policy and national security issues. Although, the authorities’ decisions are likely to remain half-hearted and criticised by civil society representatives.

Belarus Digest prepared this overview on the basis of materials provided by Pact. This digest attempts to give a richer picture of the recent political and civil society events in Belarus. It often goes beyond the hot stories already available in English-language media.

Belarus Finally Reforms Its Economy?

On 26 September in New York, Alexander Lukashenka met with IMF chief Christine Lagarde. They discussed prospects for an IMF-supported programme.

According to the IMF statement “Lagarde welcomed some recent
progress in strengthening the policy framework in Belarus, but emphasised that a more comprehensive reorientation of policies, consistently supported at the highest level, is needed to restore stability and sustainable growth”.

In fact, in the current presidential campaign Lukashenka is distancing himself from populism. Moreover, since the beginning of 2015 the Minsk's authorities have consciously conducted a conservative economic policy and slowly introduced structural reforms, despite the recession.

On 27 December 2014 Lukashenka appointed a new government and central bank chief. These new appointments consisted of several moderate reformers with rather liberal views. In contrast to Russia, the Belarusian president took advantage of the current difficult economic situation to change government and economic policy.

Russia’s recession and low energy prices, limit Belarusian exports, as well as energy subsidies from imports of cheap Russian natural resources. Without them the quasi-socialist Belarusian economy does not generate growth. Adverse external conditions will hardly improve in the coming years, and that is why Minsk has no alternatives but to carry out structural reforms.

**Conservative monetary policy**

The new Belarusian policymakers have been successfully fighting inflation. The National Bank of Belarus (NBB) immediately tightened monetary policy and introduced monetary targeting to curb inflation. The real interest rate, which explains how much the nominal interest rate exceeds annual inflation, is already over 13%. For comparison, in Poland it is currently at around 2 percent. This completely suffices to eliminate any price growth.
The inflation’s slowdown is clear on a monthly basis. In July and August, prices increased by 0.2% per month. Extrapolating such a pace of inflation for the whole year, the annual inflation rate will amount to only 2.5%.

In addition, the NBB successfully liberalised the exchange rate regime. As a result, transparent market conditions have formed the current currency rate, while the regulator has virtually withdrawn from intervening in the market. Finally, the exchange rate has served as an automatic stabiliser for internal and external shocks.

The strong depreciation of the national currency has balanced the country's current account. Since the beginning of 2015 the dollar exchange rate in Belarusian roubles has increased by 50%. As a result, in the second quarter of 2015 the NBB recorded a current account surplus of 4.3% of quarterly GDP, which is highest since the first quarter of 2005. By contrast in the fourth quarter of 2014 the deficit was 9.5% of GDP. The new currency policy automatically avoids high current account deficits which led in 2011 to the worst currency crisis in Belarus in the past 20 years.
Conservative fiscal policy

The current presidential campaign is the first during which the authorities have pursued a conservative fiscal policy. In January-August 2015 the public sector surplus debt amounted to $1 bn (2.7% of GDP) which facilitated servicing the public debt.

The government maintains a simple principle: wage growth should not exceed labour productivity growth. In January-August 2015 real salaries fell by over 3% or 0.5 p.p. more than productivity. Thus, unit labour costs declined and became an anti-inflationary factor.

Since 2012 Minsk has managed to control its growing foreign debt. In relation to GDP external debt fell from 58% at the end of 2011 to 55% on 1 July 2015. Last year debt decreased also in absolute terms, by around $3 bn. This is a fundamental change compared to 2007-2010 when the government stimulated economic growth by foreign loans.

Structural Reforms Implemented

Besides stabilising the economy, simultaneously the government conducts structural reforms, including restructuring state-owned industrial enterprises. Despite the elections, employment in the largest industrial factories decreased by around 10 percent.
For example, Minsk Automobile Plant “MAZ” and Minsk Tractor Works “MTZ”, the two biggest employers, employed over 2 thousand (10%) and 2.7 thousand (14%) people less in the first quarter of 2015 than a year before. Even the potash factory “Belaruskali”, the third largest employer and the most profitable company, fired 1.5 thousand (8%) of its employees. In fact, the authorities recommend or at least allow management boards to downsize industrial enterprises quicker than the whole economy.

Some state-owned companies plan to accelerate the privatisation of redundant assets. Currently, the State Property Committee offers more than one thousand properties for sale. Auctions for some of them are assigned for the coming weeks. However, despite the private sector’s demand for free commercial space, asset privatisation has not been carried out on a broad scale and is currently very slow.

The authorities occasionally decide to liquidate unprofitable industrial enterprises. For example, in August 2015 a court ordered the liquidation of a hosiery factory called “KIM”. Only two years ago the company, founded in 1931, employed more than 900 people.

Besides restructuring enterprises, the government has limited direct lending to the produce sector and planned to depart from future planning initiatives. According to the independent news agency BelaPAN, the resolution’s draft, approving the prognostic parameters for 2016 departs from the compulsory nature of the forecasts and grants them only an indicative character. In other words, the state will not interfere with a firms’ production and financial processes in order to “accomplish” forecasts.

Moreover, Minsk has announced ambitious plans for further reforms. Earlier this year Belarus developed with the World Bank “a road map of structural reforms”. In accordance with this, Minsk has already adopted a plan of radical increases in
International recognition

The new economic policy in Belarus has been gaining recognition from international organisations. The last IMF mission to Minsk in the first half of July praised the conducted economic policy and plans for structural reforms. The IMF assured the regime that if such a policy is continued, negotiations on granting a new IMF loan may be successfully finished by year-end.

To conclude, since the beginning of 2015 the new Belarusian economic policymakers have been conducting a conservative economic policy. As a result, the economy regains balance, after being hit by external shocks in the second half of 2014 and the first half of 2015. In these circumstances, Minsk has taken unpopular reforms, such as firms’ downsizing, the sale of idle assets, and the liquidation of some enterprises.

These reforms, in fact, are rudimentary and slow. Hence, they cannot bring immediate success. One hopes the reform will continue after the presidential campaign. Finally, Lukashenka reforms the economy not because he wants it, but rather because he has no choice. If external factors do not improve, perhaps at last the authorities will implement the changes that should have been implemented in the 1990s.

Looking Back at Lukashenka’s
On 11 September candidates for Belarusian president officially started their campaigns. From the previous presidential campaign slogan “For independent, strong and prosperous Belarus”, Lukashenka left only “independent”.

In order to buy voters in 2010, Lukashenka embarked on excessive wage growth in the public sector, while exploiting international reserves to sustain the Belarusian ruble. However, this year, given the shortage of resources Lukashenka has to abandon his policy of cheap populism.

Despite promises in 2010, there has been no change in economic freedom, the private sector share in GDP remains at a minimum, and the number of the small and medium enterprises still remains low.

Belarus Moves Away From Populism

Until recently Lukashenka focused his election campaigns primarily on raising living standards. The authorities and society had an unwritten “social contract”. Lukashenka who has ruled the country for over 21 years substituted the lack of political change with a substantial increase in social welfare.

Lukashenka's current fourth presidential term has become his worst.

In each presidential campaign since 1994 Lukashenka had vowed to increase the populace's average wage by the end of that presidential term. So far, the economy in 2001 and 2006 delivered the expected outcome with ease, while in 2010 artificial help from the officials was needed. In 2010 Lukashenka promised to raise the average monthly wage to
$1,000 by 2015. Yet, in July the average salary fell below the level that was reached by the end of 2010.

For the first time Lukashenka is running for re-election without any commitment to guarantee a certain wage. Unfavourable external conditions and the ineffectiveness of the Belarusian economy, has left the authorities with no sources to boost the economy in the near future. Minsk has simply no extra money to buy voters.

<table>
<thead>
<tr>
<th>Year</th>
<th>Presidential campaign promise</th>
<th>Actual performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$100</td>
<td>$89</td>
</tr>
<tr>
<td>2006</td>
<td>$250</td>
<td>$271</td>
</tr>
<tr>
<td>2010</td>
<td>$500</td>
<td>$411 (530*)</td>
</tr>
<tr>
<td>2015</td>
<td>$1000</td>
<td>$442**</td>
</tr>
</tbody>
</table>

Source: The National Statistical Committee of Belarus, The National Bank of Belarus

* in December 2010 ** in January-July 2015

**Economic Stagnation Instead Of Bright Promises**

Lukashenka's current fourth presidential term has become his worst. In early 2011 the Belarusian authorities forecasted that GDP would increase by 62-68 per cent by the end of 2015. In reality, growth will likely only hit 6 per cent. The discrepancy between the official forecast and the performance of main economic indicators affects all other measurements.

The Belarusian economy faces a systemic crisis. In the period 2001-2008 economic growth amounted to 8.8 per cent annually, while in the period 2009-2015 growth was limited to 1.9 per cent. With such a performance the economic gap between Belarus and the EU, measured by GDP per capita on Purchasing Power Parity (PPP), has remained unchanged for the past five years. That has disappointed many Belarusians who are the absolute leaders in the world on the number of Schengen visas per capita. Through access to the EU, Belarusians can compare the living standards at home and abroad.
Minsk has avoided reforming the economy in the past five years. According to the main national forecasting document, the Socio-Economic Development Programme for 2011-2015, Belarus had to join the Top-30 countries in the world for the ease of doing business by 2015. However, Belarus’ position in the World Bank ranking has barely changed as the table below demonstrates. Despite promises, experts saw no change in economic freedom, the private sector share in GDP, and the share of small and medium enterprises.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita based on purchasing-power-parity in comparison to the EU</td>
<td>46%</td>
<td>47%</td>
</tr>
<tr>
<td>Ease of Doing Business</td>
<td>58 position (out of 183)</td>
<td>57 position (out of 189)</td>
</tr>
<tr>
<td>Index of Economic Freedom</td>
<td>150 position (out of 179)</td>
<td>153 position (out of 178)</td>
</tr>
<tr>
<td>Private share in GDP</td>
<td>~30%</td>
<td>~30%</td>
</tr>
<tr>
<td>Small and medium enterprises share in GDP</td>
<td>20%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Source: the National Statistical Committee of Belarus, the Ministry of Economy of Belarus, the World Bank, the IMF, the EBRD, the Heritage Foundation

The Doomed Future of The Belarusian Economy

During Lukashenka’s current term for the first time since 1995 Belarus has experienced a recession. In January-July 2015, GDP plummeted by 4 per cent year-on-year. In addition, the IMF forecasts a minor recession in Belarus in 2016 (-0.1 per cent).

Lukashenka faces rising unemployment, the unpredictability of the automotive industry, a shorter working week in many industrial plants, declining real wages, and currency devaluation by 50 per cent since the beginning of the year. How to solve them remains unclear, and Lukashenka keeps silent about this.

The Belarusian economy in 2015 is more unstable than in 2010. In 2006-2010 the US dollar in comparison to the Belarusian
rouble went up by 40 per cent, while in 2011-2015 the currency rate grew six fold. A similar deterioration happened in regards to inflation. Furthermore, Belarus has become more vulnerable to external shocks. The international reserves have decreased while foreign debt has increased.

<table>
<thead>
<tr>
<th></th>
<th>2006-2010</th>
<th>2011-2015*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative increase of USD/BYR rate</td>
<td>39%</td>
<td>493%</td>
</tr>
<tr>
<td>Cumulative inflation in 5 years</td>
<td>62%</td>
<td>424%</td>
</tr>
<tr>
<td>International reserves of the central bank</td>
<td>$5.7 bn (as 1.12.2010)</td>
<td>$4.6 bn (as 1.09.2015)</td>
</tr>
<tr>
<td>Foreign debt of the economy</td>
<td>$28.4 bn (as 1.01.2011)</td>
<td>$38.2 bn (as 1.04.2015)</td>
</tr>
</tbody>
</table>

*Source: The National Statistical Committee of Belarus, The National Bank of Belarus

*As of 15 September 2015

**Light At The End Of The Tunnel**

Minsk seems to have learnt a lesson that populism has ruined the economy since the last political cycle of 2010. The new government, elected at the end of last year, has conducted in 2015 quite a reasonable economic policy which has gained positive feedback from representatives of the international financial institutions. Since the beginning of 2015, each IMF mission, the World Bank and the Eurasian Development Bank has praised the new authorities for a responsible economic policy.

On the positive side, the Belarusian government consciously decided to control the economy's total foreign debt. Because of that the foreign debt in terms of GDP has increased insignificantly in the past five years, only by 1.4, from 51.6 per cent. That manifests a profound change in Belarusian economic policy in comparison to the second half of the 2000s when foreign debt increased dramatically.

Belarus still has great potential to benefit from liberal reforms.

Belarus still has great potential to benefit from liberal reforms. Privatisation of state owned enterprises and a favourable business climate for establishing new entities
could support Belarusian fiscal policy and boost the economy. For example, income from the privatisation of one of the biggest Belarusian company's, Belaruskali, could pay off a half of Belarus's total foreign debt.

The standard of living in the recent 5 years has slightly improved. Suddenly, Lukashenka has stopped declaring any progress in the social well-being in the near future. Deeply rooted traditional statement “if only there was no war” and national security issues has replaced economic rhetoric. The reason is simple: Lukashenka has nothing to boast about since no economic prediction for his current 5-year presidential term has come true.

Although many experts often predict the quick collapse of the Belarusian economy, it still allows for small growth. Yet, in the absence of decisive reforms and low oil prices Belarus could stay in stagnation for coming years. However, the stagnation would not bring immediate political changes since Belarusians have accepted living under state propaganda and are afraid of any revolution after the Ukrainian Maidan in 2014.

Time will show whether Lukashenka goes down in history as a reformer or as the captain of a sinking ship.

The Economy Gets Used to Sustained Recession – Belarus Economy Digest

The Belarusian economy keeps on contracting: in January-July it decreased by 4 per cent. However, a number of positive
trends have arisen: wages and employment are stabilising, along with improvements in current account balances. The latter might signal an imminent recovery, but that remains questionable. Increased sensitivity to global financial turbulence and the lack of policy capacities may cause a deeper and sustained recession.

**Poor perspectives for leaving recession**

In January-July 2015, the economy performed rather poorly: GDP dropped by 4 per cent, and this was accompanied by shrinking employment and wages. This means that in 2015 GDP contraction will be more than 3.5 per cent as most analysts agree. A 4.0 – 4.5 per cent contraction in 2015 seems likely. Moreover, perspectives for 2016 are deteriorating: expectations of poor growth might be soon substituted for expectations of a continuation of recession.

From the demand side, poor investment activity explains the deteriorating environment. The majority of firms have adjusted to a shock reduction in foreign demand by making fewer intermediary imports, which has a roughly neutral effect on GDP.

However, this adjustment has not been sufficient and firms have had to reduce their investments as well. High interest rates and labour costs have strengthened this trend. Such adjustments by businesses mean that the social impact of the current economic downturn has been relatively soft. However, it implies more challenges for a rapid recovery and weakens the environment for long-term growth.
Wages and employment moving towards stabilisation

At the beginning of the year, the labour market reacted sensitively to the economic slowdown: both employment and real wages contracted. However, in the last couple of months this relationship has dwindled. First, the rate of decrease in employment has slowed. Second, the quantity of ‘idle hours’ initiated by employers has begun to go down. Third, real wages have recovered from a huge drop at the beginning of the year, and have actually stabilised near the average level of 2014 (see Figure 1).

A number of factors can explain the stabilisation of the labour market. First, the private sector (or part of it) might be satisfied with the current level of labour costs which resulted from substantial cuts at the beginning of the year because it it more competitive.

Second, in May and June some positive signals in foreign demand may have pushed firms to stop making further adjustments to labour costs. Third, the government might have intensified its administrative tools ahead of the presidential election. From this perspective, Lukashenka’s statement that state-owned enterprises should do their best to save their labour force despite the recession might have had an impact.
Recession improves trade balance

Contraction of demand abroad triggered the current recession in Belarus. Similar shocks in previous years led to a significant deterioration in the trade balance, as a reduction in exports was not compensated enough by a reduction in imports. However, this time the adjustment to foreign demand shocks has been different. Currently Belarus is demonstrating substantial improvements in its trade balance (see Figure 2).

First, this is due to a shift to a floating exchange rate regime, which provides near stable price competitiveness for Belarusian producers. Second, the recession environment contributes to a better merchandise trade balance: less disposable income guarantees less demand for imports. Third, the government has tightened its administrative pressure on imports. Finally, during this year Belarus has displayed a persistent surplus in its trade of goods and services.

Surplus in trade together with the inflow of oil duties which were previously re-channeled to the Russian budget will lead to significant improvements for Belarus. In fact, it means that Belarus in 2015 does not need foreign borrowing to finance its current needs. However new borrowing for repayment of old debts is still on the agenda.

Overall, one may argue that the current recession and new policy mix is a painful but purifying treatment for the Belarusian economy. However, such a conclusion may be challenged because of the increased sensitivity of the national economy to external shocks. This sensitivity stems from structural weaknesses and distortions accumulated during the periods of voluntary policies.
Sensitivity to turbulence in international markets increased

In the current policy mix, the nominal exchange rate should absorb a huge part of the external shocks. Given the relatively stable external environment, this mechanism works properly. That was the case, say, in the second quarter, when foreign financial markets, oil prices and exchange rates of major currencies for Belarus (USD, EUR, RUB) were relatively stable.

However, in case of more severe shocks and correspondingly large exchange rate adjustments, the mechanism stalls. Belarusian households still perceive large exchange rate swings as a signal of further financial turbulence, rather than a shock absorber. This leads to deposit dollarization and demand for hard currency to increase, thus propagating the shock for domestic financial markets rather than dampening it.

A similar story took place in July and, especially, in August. A new round of global financial market downturns led to cheaper oil and depreciation of the Russian ruble. The Belarusian ruble followed a similar path to the Russian one, which resulted in a roughly 15 per cent depreciation in July-
August against the US dollar.

Lowering demand for national currency accompanied depreciation. The worries of households also amplified it: Belarus had to redeem Eurobonds issue worth $1bn given a very low level of international reserves. However, a new loan from Russia (the equivalent of $760m) allowed passing the Eurobond redemption without reduction of reserves, which mitigated the pressure on the financial markets.

Although depreciation has not triggered a new wave of panic on the domestic market, it exposed existing challenges. First, the current policy mix is still weak in the face of huge shocks. Second, the authorities cannot afford a rapid reduction in interest rates as it increases sensitivity to shocks. This means that getting out of recession will take a long time, especially against the backdrop of global financial instability. Hence, a deep and sustained recession seems the most likely scenario for Belarus.

Dzmitry Kruk, Belarusian Economic Research and Outreach Center (BEROC)

This article is a part of a joint project between Belarus Digest and Belarusian Economic Research and Outreach Center (BEROC)

The Myth of Thriving Belarusian Agriculture

Agriculture was the fastest growing branch of the Belarusian economy in the first half of 2015. Many in Russia and other post-Soviet countries consider Belarus to be a model when it
comes to maintaining a viable agricultural sector.

But in reality, the Belarusian government spends more on agriculture than the sector’s value added. Despite substantial subsidies many Belarusian foodstuffs cost more than European equivalents, including Polish cheese, Dutch meat, and Spanish tomatoes.

Agriculture plays a significant role in Belarusian state ideology. Almost every television news report in Belarus contains at least one reference to the agriculture sector, such as the recent story on Lukashenka teaching French actor Gerard Depardieu how to mow with a scythe.

In fact, however, Belarusian agriculture is the least effective sector of the economy. It still resembles the USSR era. Soviet-style collective farms still dominate the market and can barely operate without state subsidies.

The Least Reformed Economic Sector

The share of agriculture, hunting, and forestry in the economy has been diminishing over the last 25 years – from 23 per cent of GDP in 1990 to 7 per cent in 2013, according to the National Statistical Committee. With over 320,000 Belarusians employed in the sector last year, agriculture still accounts for quite a significant part of the economy. By contrast, in Poland the share of the agriculture sector is twice as small.

Private farmers contribute less than two per cent to the total agricultural output

Salaries in agriculture remain among the lowest in the country, and hence the sector suffers from severe labour shortages. Currently, agriculture sector wages are a third of the average national salary (around $300 per month). However, earnings in this sector rose faster than the average in
Agriculture remains the least transformed sector of the Belarusian economy. Private farmers, the basis of agriculture in any market-oriented economy, contribute less than two percent to the total agricultural output. Together with production from household plots, i.e. individual gardening for one's own needs, they constitute less than a quarter of the total agricultural output. Yet state-owned collective organizations or collective organisations with significant state involvement make up the vast majority of the rest.

Agriculture has become a very export-oriented branch of the Belarusian economy, with a positive trade balance. In 2014 it accounted for $5.6bn or 15.5 per cent of total exports. The only problem is that virtually all these exports, particularly dairy and meat products, go to Russia.

Ineffective State-Owned Collective Farms

Almost all state-owned collective farms would immediately go bankrupt without state support. Only 10 per cent of agricultural firms could operate profitably without public aid, according to a study published in December 2013 by the Ministry of Economy. The absence of reforms turned agriculture into a very ineffective sector of the economy.

Paradoxically, the Belarusian government uses more resources
on agriculture than it produces. In recent years subsidies for the agriculture sector oscillated between 9 and 12 per cent of GDP, according to the Ministry of Agriculture. At the same time agriculture’s contribution to GDP is less than 9 per cent.

On the other hand, with hardly any financial aid from the state private farmers have proved themselves to be more productive than generously subsidised state-owned entities. Over the last 15 years private farmers have increased production by 16 per cent annually, i.e. 10 percentage points faster than the state-owned collective farms. This financial performance also boosts arguments in favour of private ownership.

Occasionally Belarusian officials discuss privatisation of agricultural enterprises. In November 2014, Deputy Prime Minister Michal Rusy stated that nearly 30 per cent of agricultural enterprises were insolvent and said that perhaps it was time to sell them. In mid-July this year the head of Hrodna region, Uladzimir Kraucou, confessed that a third of the 150 agricultural organisations in the region cannot pay off their debts. The local authorities have considered their privatisation or at least reorganisation and have even received business proposals from investors to this end.
Commitments To Decrease Financing For Agriculture

If Belarus were to join the WTO, it would have to cut significantly its financial support to agriculture. Without the prior liberalisation and privatisation of the agricultural sector, this will cause the whole sector to collapse. On the other hand, Belarus has already begun decreasing financing for the sector, and in 2016 subsidies should not exceed 10 per cent of GDP, due to Belarus’ commitment to the Eurasian Economic Union.

Improvement of the business environment can be a successful substitute for the huge financial injections into agriculture. Making it easier to do business and providing equal treatment for all business entities may encourage Belarusian private and foreign capital to replace the ineffective companies or force them to become more effective.

For instance, during the last economic liberalisation in 2007-2010 one of the world’s biggest brewing companies, Heineken, entered the Belarusian market. The company has taken a large chunk of the brewing industry, and by doing so has invested in cooperation with many Belarusian agricultural enterprises.

Private Farming Remains The Only Solution

Lukashenka’s policies have hindered the development of the private sector, particularly in agriculture. For instance, Belarus now has around 20 per cent fewer individual farmers compared to 1994 when Lukashenka was first elected as president. Officials have been discriminating against private farmers, sending inspections to their premises more frequently and subsidising predominantly the state-owned collective
For the last 25 years the authorities have tried to avoid reforming the sector. The absence of private ownership of land remains the real obstacle for the sector’s growth. The agricultural land market hardly exists. Less than one per cent of Belarus’ land areas is under the private ownership of natural persons who are citizens of Belarus. The experience of other post-socialist countries, both in Eastern Europe and in East Asia, shows that the transfer of land ownership boosts the profitability of agricultural activities.

The ability of the Belarusian authorities to maintain a viable agricultural sector remains only a myth propagated in Russia and some other countries. In fact, Belarusian agriculture survives only thanks to gigantic state subsidies. Instead of supporting the systematically unprofitable entities, the government should distribute the financial resources more equally, creating an equal market environment for both collective organisations and private farmers.

Aleś Alachnovič

Aleś Alachnovič is the Vice President at CASE Belarus and PhD candidate at the Warsaw School of Economics, an alumnus of the London School of Economics.

Why Are Belarusian Economic Forecasts Constantly
Inaccurate?

According to the official five-year Socio-Economic Development Programme For 2011-2015 the GDP was supposed to increase by 62-68 per cent by the end of 2015. In reality, the growth is likely to hit around 6 per cent. How did the government manage to get it wrong by such a large disparity?

After 25 years of transition, the Belarusian state forecasts remain unreliable. But Belarusian independent think tanks, commercial banks and international organisations also frequently overlook the real economic trends and have to revise their forecasts several times throughout any given year.

The Belarusian quasi-socialist economy is hardly suited for macroeconomic forecasting. Irrational decision-making by the Belarusian authorities and incentives for officials to polish the data hinders sound forecasting. Additionally, official statistic gathering and reporting is still in its infancy and competition between those making the forecasts is scarce.

Systematic Errors in Forecasting

Belarusian state-employed economists regularly fail to provide accurate predictions about the economy. They often fail to provide proper predictions even for economic growth, probably the most important macroeconomic indicator for any economy. The government's annual forecasts continuously underestimated the GDP's actual growth by almost a quarter from 2000-2006, while from 2009-2015 their figures exceeded its actual performance by almost three quarters.

In other words, in 2009-2015 official economic forecasts exceeded the true GDP's growth on average by 5.1 percentage point per year. Hence, forecasts even just the year ahead have
been highly inaccurate.

The forecasting errors in Belarus have become even clearer after comparing them with more developed post-socialist countries. True, the annual GDP forecasts projected for Poland’s central budget also happened to miss the actual economic growth in 2000-2015.

Nevertheless, in contrast to Belarus, the margin of error was much smaller and offset one another in consecutive years. In particular, in 2009-2015 they fell in a range of -2.5 to +2.4 p.p. but their sum in the whole period was only 0.8 per cent of GDP. Neither the global financial crisis nor other external factors spoiled Poland’s governmental forecasts.
Frankly speaking, the poor results of economic forecasting in Belarus also concern Belarusian think tanks, individual economists, commercial banks, and international organisations (such as the IMF or the World Bank). For instance, in the last week Priorbank, the 6th largest bank in Belarus, reduced its GDP forecast for 2015 to -3.5 per cent. Yet, early this year in its first weekly economic review the bank projected economic growth at 0.5 per cent. Thus, in the absence of a war or a major natural disaster, 4.0 per cent of the GDP evaporated in less than seven months.

Unpredictable decisions of Belarusian authorities

Political discretion stands at odds with economic rationality in Belarus where state-owned enterprises (SOEs) account for 70 per cent of GDP (according to the EBRD). Belarus has a very weak market economy and whereas in other market-oriented countries an unprofitable state-run enterprise that regularly goes bankrupt would be dropped, in Belarus the authorities rescue SOEs at virtually any expense. Recently, Lukashenka ordered $0.6bn in financial aid to be sent to state automotive plants to stabilise their financial situation. Therefore, the authorities violate the very principles of economic predictability by ignoring some of the basic laws that rule any market economy.

Administrative decision-making play a bigger role in Belarus than in the average market-oriented economy. At times, it is very difficult to predict what the economically irrational choices of Belarusian authorities may be. Take, for example, the policy of raising the nominal average salary by 46 per cent over 12 months before the presidential elections in December 2010. Eventually, the officials’ continuous interference in the economy leads to macroeconomic
Moreover, as Lukashenka regularly approves the official macroeconomic forecasts, state officials are encouraged to try to alter what is really going on with their statistics to make the outcomes look better than they really are. For instance, in autumn 2011 the government submitted to the President a draft forecast that had predicted 1.5 per cent GDP growth for 2012. Lukashenka’s harsh critique forced officials to promptly revise its growth forecast to 5.5 per cent but, needless to say, the GDP ended up growing by 1.5 per cent, after all.

**Technical Obstacles For Forecasters**

Technically, Belarusian statistics contain insufficient data to make accurate forecasts – relatively coherent data are available from 1995, but they cover only the last 20 years. Given this short time frame, it is difficult to determine the range and number of general business cycles that Belarus has witnessed (perhaps three of them). Moreover, during each business cycle Belarus has experienced several extraordinary events unfold such as its decision to abandon market reforms in mid 1990s, the period of generous energy subsidies in 2000s, and the 2008 global financial crisis. However, precise economic forecasting requires stable and replicable trends, something which Belarus currently lacks.

Additionally, the Belarusian state statistical committee suffers from a low level of credibility among both Belarusian and international experts alike. This distrust stems from the data from the 1990s and the beginning of the 2000s, a period of hyperinflation in Belarus. At a relatively high level of inflation, even minor errors in calculating the GDP might lead to a serious misrepresentation of economic growth that was the result of shifts in prices rather than levels of production. In a country report from 2004, the IMF stated that the Belarusian national accounts were overstating their real
growth by about 1-2 per cent.

**Little Competition Among Forecasts**

Belarusian economists are reluctant to develop advanced macroeconomic models for forecasting due to the low level of competition between their counterparts to develop more accurate predictions. Very few economic units systematically produce forecasts in Belarus (the primary outlets are the National Bank of Belarus, Ministry of Economy, Ministry of Finance, IPM Research Center, and some commercial banks), but even fewer of them make their results public.

Without strong demand for sound economic forecasts and their subsequent assessment by an independent body, economists will continue to produce low-quality economic forecasts. Perhaps the National Bank of Belarus, alongside the national media, could set up and conduct a contest for the country's best macroeconomic forecasts. By drawing the attention of potential employers – be it the state ministries, businesses and think tanks – such a contest has an opportunity to attract the best economists and create incentives to improve their forecasting skills.

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**Will Belarus Ever Become a WTO Member?**

Two weeks ago, Belarusian Deputy Foreign Minister Aliaksandr Hurjanau declared Belarus was planning to finish all of the necessary technical work for the country’s accession to the
World Trade Organisation (WTO) in one year's time. However, exactly three years ago he also projected that Belarus would join the WTO by the end of 2013. Is this time going to be any different?

The history of Belarus applying to join the WTO is a story of unfulfilled promises to liberalise and privatise the economy. Instead of firmly declaring its aspirations to join the WTO by establishing its strong political commitment that could motivate it to introduce reforms, the Belarusian authorities have preferred to imitate engagement.

Belarus remains one of the very few countries in the world that does not belong to the WTO. To name but two issues, the overwhelming role of the state in the economy and its extensive agricultural subsidies are the clearest obstacles for Belarus' accession to the WTO.

**Everyone but Belarus**

The WTO's mission is to negotiate global rules for export-import relationships, developing multilateral trade agreements and reducing trade barriers. To date, 161 countries, which account for over 98 per cent of global GDP, have joined the WTO. Another 23 countries, including Belarus, are in the process of negotiating their accession, and only 14 states have shown no interest in joining. No country has ever left the WTO.

Russia's accession to the WTO in 2012 automatically forced other members of the Customs Union of Belarus, Kazakhstan, and Russia to comply with trade liberalisation policies in accordance with Russia’s obligations to the WTO.

Therefore, since 2012 Belarus has experienced the negative impact of Russia’s membership in the WTO with no direct benefits to its own economy. Goods made in Belarus neither have easier access to foreign markets, nor does Belarus have
the right to use the WTO’s protection regulations for litigation purposes. Yet, Russia’s accession to the WTO has raised the level of competition within the Customs Union and squeezed out a number Belarusian manufacturers from the market.

Unfulfilled Promises of Successive Governments

Belarus started negotiations on entering the WTO in 1993. After 22 years its WTO membership remains a distant prospect, though other countries in the world have a track record of between 3 years (Kyrgyzstan) to 19 years (Russia) in their attempts to join the organisation.

In 2014 the Russian government decreed it would spend $0.6m on initiatives supporting Belarus’ accession to the WTO.

In over 20 years Belarus participated in numerous events to bring the national economy closer to the global organisation. The Working Party on the Accession of Belarus to the WTO, which is comprised of 41 countries, assesses the progress of Belarus in bringing national legislation into compliance with WTO agreements. To date, the Working Party has already held 7 formal meetings in 1997-2005 and five rounds of informal consultations between 2006-2013.

In 2008-2013 the UN Conference on Trade and Development (UNCTAD) and the United Nations Development Programme (UNDP) Country Office in Belarus conducted a technical assistance project in support of reforms. The project consisted of many analytical studies, expert study tours, technical know-how exchange, seminars, and round tables. Two independent think tanks, Warsaw-based CASE and Minsk-based IPM, implemented another minor project in 2013. Last but not least, in December
2014 the Russian government decreed it would spend $0.6m on initiatives supporting Belarus’ accession to the WTO.

Minsk, however, has only been putting on a facade of deep concern about its quick accession to the WTO. Belarus’ application process is abound with numerous declarations by the Belarusian authorities to accelerate the process. In 2005, 2010 and 2012 Minsk claimed that it would successfully wrap up negotiations in a year. Meanwhile, all of its neighbours and all of the current members of the Eurasian Economic Union have already joined the WTO (see the table below).

<table>
<thead>
<tr>
<th>Selected countries</th>
<th>Year of accession</th>
<th>Private sector share in GDP in the accession year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>2000</td>
<td>70</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>2015*</td>
<td>65</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>1998</td>
<td>60</td>
</tr>
<tr>
<td>Russia</td>
<td>2012</td>
<td>65</td>
</tr>
<tr>
<td>Ukraine</td>
<td>2008</td>
<td>65</td>
</tr>
</tbody>
</table>

* The year of completion the negotiation with the WTO

Stumbling Blocks for Belarus's Accession to the WTO

With an economy where state-owned enterprises produce about 70 per cent of GDP according to the European Bank for Reconstruction and Development (many of which are subsidised), Belarus does not have the slightest chance of joining the WTO.

WTO membership requires that candidate-country commits to liberalise their economy and reduce the role of the state. The WTO has never admitted a country with such a quasi-socialist economy. For instance, the private sector in all 22 (out of 29) post-socialist countries in Central and Eastern Europe and in Central Asia that have successfully joined the WTO accounted for 50 to 75 per cent of GDP at the moment of accession. The private sector's minor role in Belarus's GDP clearly reflects the scope of its lack of transition towards a market economy.
The agricultural sector would immediately go bankrupt without the support of state subsidies

State support for the agricultural sector remains a particularly sensitive area of negotiations for Belarus’ potential accession to the WTO. Although its role in the economy has been diminishing over the last 25 years – from 23 per cent GDP in 1990 to 7 per cent in 2013, it still accounts for a rather significant part of the economy, employing 9.5 per cent of the total workforce according to the official government statistics.

The agricultural sector is comprised mainly of state-owned collective farms which would immediately go bankrupt without the support of state subsidies. Only 10 per cent of agricultural firms could operate profitably without this support according to a study published in December 2013 by the Economic Research Institute of the Ministry of Economy. If Belarus were to join the WTO, it would have to cut significantly its financial support to this sector. Without the prior liberalisation and privatisation of the agricultural sector, this would likely signal its collapse.

Yet, Belarus’s membership in the Eurasian Economic Union does not interfere with its aspiration of joining the WTO. On the contrary, since the customs policy in the Eurasian Economic Union is the same for Belarus and all other member-countries that have already joined the WTO, it means that Belarus is generally ready to instate a WTO-compliant customs policy. In other words, Belarus and the WTO could rather easily find some compromise in negotiations on tariff and non-tariff regulations of market access for goods and services.

**Keeping The Quasi-Socialist Economy Alive**

Though international competition defines growth in the long
run, for an unreformed economy it poses a significant threat. The Belarusian authorities are aware of all of this, but remain reluctant to transform the economy. This is precisely why they continue to stall on implementing their promises towards quickly gaining membership in the WTO.

Without deep structural reforms, Belarus neither has a chance of join the WTO nor will it receive the benefits from accession. For the sake of its own national interests Belarus should at first advance its economic transition towards a market economy, including small and large scale privatisation, and at a later point focus on further foreign trade liberalisation, including its accession to the WTO.

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Belarusian Economy Creeping into Recession

The first quarter of 2015 displayed a number of distressing trends in Belarusian economy.

The adjustment of the exchange rate has not secured the restoration of competitiveness. Furthermore, the government has to resort to conservative policies for mitigating structural weaknesses.

The economy has gone into recession, which was accompanied by lower real wages and levels of employment. However, a tough environment may become a trigger for structural reforms.
A New Economic Pattern: Shrinking Economy and Conservative Policies

The first quarter of 2015 has been distinct because of some of the novelties witnessed in economic dynamics and policies. A couple of months ago, the low competitiveness of Belarusian goods had become a key reason for the exchange rate's adjustment. But this time around, the authorities have minimised the impact of devaluation, as they were afraid of a new full-fledged financial crisis.

Hence, they have been deferring to ‘austerity policies’ to mitigate structural weaknesses and to restore competitiveness. Such policies include constraints on wages, fiscal expenditures, and a rather conservative monetary policy.

This scenario has changed the traditional landscape. First, the government has thus far refused to engage in a policy of wage stimulation. More than this, the government has actually begun to restrain wages, for instance, like those found in budgetary sector, and through administrative measures. Hence, a trend of real wage contraction has become persistent.

![Real wages, s.a.](image)

Second, a new reality has expressed itself through declining levels of employment and growing unemployment. Official statistics only report registered unemployment. In the 1st quarter it grew by 8.6%, reaching 0.9% of labor force.
However, the absolute value of official unemployment is rather far from the actual figure. But, its growth rate may be used as a proxy for showing actual unemployment. Given the assessments of the latter at around 4.5% in December, one may argue that currently, the actual rate of unemployment tends is climbing towards its historical maximum from the last decade.

The new environment has resulted in a contraction in economic output. In the 1st quarter GDP fell 2%. The scope of this contraction seems to be relatively modest, as the depressed environment has also led to a tremendous contraction in imports. However, a mitigating recession due to fewer imports might be exhaustible: roughly all of the options for import restrictions have already been invoked. Hence, the additional competitiveness of enhancing the policies employed are necessary in order to ensure that the recession will continue to be modest and/or short-lived.

**Sustainable Weaknesses May Secure Long-Lasting Recession**

During the 1st quarter, Belarusian exports saw a significant decline. However, the adjustments in the exchange rate for the Belarusian ruble and the ‘austerity policies’ in place helped to mitigate this trend. Being accompanied by rapidly contracting imports, it helped to secure rather attractive foreign trade statistics.

For instance, the trade balance (goods and services) in January-February turned was in the green. From the perspective of current accounts, this means that it is likely to shift upwards into the positive in the first quarter as well (especially, taking into account that oil duties are going to the Belarusian budget this year, while previously they were being sent to Russia).
Improvements in its external positioning assisted in stabilising the exchange rate. The latter pushed the households to deposit more actively in the Belarusian ruble as they try to take advantage of a period of high real interest rates. This, in turn, created an impulse to drive interest rates down on financial markets. The authorities have begun to argue about stability and Lukashenka has characterised it as ‘a certain equilibrium between the economy and finance’.

But in a broader context, the situation remains far ideal. First of all, despite improvements in foreign trade, international reserves continue to shrink (see Figure 2).

![Figure 2. The Dynamics of International Reserves](image)

Payments towards external debts are the main culprit behind this development. Moreover, future payments due this year will lead to a further decrease of the reserves, unless some of the debts are not be refinanced.

Second, devaluation and inflation expectations are still high and not sustainable. Hence, any serious shock may generate a new wave of disturbances on domestic financial markets. From this perspective, dwindling reserves is alarming, as just it may trigger new financial turmoil.

Third, while the current policies have improved the competitiveness of the firms somehow, but the situation is still far from normal. A majority of firms still cannot restore their financial position because a huge part of their working capital is frozen in the pipeline. For instance, manufacturing firms have accumulated 84% of their monthly average production as finished goods inventories.
These frozen inventories can simultaneously cause a number of other events to unfold. First, the share of borrowed funds (bank loans) in firms’ working capital is increasing, substituting their frozen funds. Given the high interest rates, these will only worsen firms’ financial positions. Second, the lack of liquid assets influences the growth of non-payment in the real sector. Third, firms have to restrict their output, make further cuts in wages, which generate negative impulses for output patterns. Hence, the overall lack of competitiveness is likely to make the current recession deeper and more prolonged.

**Authorities Apply for New Credit, Promising Structural Reforms**

The authorities suffer from a lack of available instruments to smooth over the recession and reduce its potential length. Hence, their search for a new chunk of external financial support has once more become their primary target to solve the issue. In March and April they launched negotiations with Russia, the EurAzEC anti-crisis fund and the IMF for new funds.

However, the government is trying to show (albeit indirectly and without issuing any official statements) that this time is different – they are not just applying for more credit, but they want to use these funds as a kind of umbrella for structural reforms. For instance, a visit by the Belarusian authorities to the IMF's Spring Meetings included a presentation on a structural reform ‘road map’ that had been developed in cooperation with the World Bank. This ‘road map’ contains a wide range of measures, which indeed could lead to systemic structural reforms, if it were to be implemented.

However, there are still doubts amongst the Belarusian public about the willingness and readiness of the authorities to
start the reforms. Given their negative past experiences, many experts argue that the agenda for structural reforms is simply being used as a justification for filling the state's coffers. It is up to the authorities to show what their real intentions are in the coming weeks and months.

Dzmitry Kruk

This article is a part of a joint project between Belarus Digest and the Belarusian Economic Research and Outreach Centre (BEROC)

Belarusian Economy Sinks to Uncertainty – Belarus Economy Digest

Belarus displayed modest but stable growth during past couple of months.

However, future prospects for growth remain uncertain, given the deteriorating economic situation in Russia along with the desire of the authorities to carry out several growth stimulating policies.

Moreover, there are questions with respect to both the exchange rate and interest rate policy that the authorities cannot decide how to deal with the issues.

Output: Sluggish growth stayed put, but its further path is uncertain

During last four months Belarusian economy performs modest and
extremely stable growth rate on annual basis – 1.5%. In terms of business cycle, it means that Belarusian economy is still reviving, although the power of this revival is fading away (see Figure 1).

Two factors lay behind these developments. On the one hand, a recent revival of capital investment, a huge expansion in potash fertilisers exports and bitumen mixtures, and less demand on intermediary non-energy imports are all pushing the economy to grow. From the production side, these trends have resulted in confident and strengthening growth in both mining and quarrying, as well as chemical production. This all goes to show that growth actually stems from a very limited number of industries.

On the other hand, weakening consumption growth and a deteriorating external environment have become serious obstacles for growth. At present real wages are stagnating. This new trend has become more or less established as the government gives up on artificially stimulating wages (given the serious challenges with price competitiveness that Belarusian producers face).

**The influence of Russian economic problems**

Moreover, labour migration dropped as well, largely due to
declining wages in Russia — which is the main destination for labour migration — in US dollar terms. Frozen wages began to drive household consumption down. For instance in October, retail turnover recorded growth of just 1.7% in annual terms, while it grew by 13.1% and 9.0% in the first and second quarters of 2014 correspondingly. By the end of the year household consumption growth is will continue to decline and is unlikely to be a source of growth in the near future.

Furthermore, the quickly deteriorating economic situation in Russia is turning into a major issue for the Belarusian economy. According to the available data, there are signs that in October Belarusian producers began to have some problems with sending their goods for export to Russian markets.

These problems are twofold. First, contracting demand in Russia hit Belarusian producers as well as other competitors on Russia's markets. Second, a sharp decrease in price competitiveness for Belarusian producers on Russian markets also unfolded in October.

Russian ruble depreciated enormously against the US dollar in October, while Belarusian ruble kept on modest rate of depreciation vs. dollar. Hence, in real terms Belarusian ruble appreciated to Russian ruble in October by 6.6%, and by 17.6% since the beginning of the year. These figures display the scale of price competitiveness reduction for Belarusian producers (see Figure 2), which restricts their exports.

A more expensive Belarusian ruble (vs. the Russian ruble) also triggered a boost in the demand for imports from Belarus's eastern neighbour. The prices in Russia in dollar terms turned out to become much cheaper for Belarusians in comparison to the domestic market, especially for durable and capital goods.

The combination of growth of promotion and the growth of restrictive factors has created a large amount of uncertainty. This uncertainty alone presents a challenge for the economy.
In such an environment many economic agents shift their behaviour to be conservative in tone – they postpone planned investments and purchases of durable goods and/or refrain from new plans until more clarity and certainty about the economic situation is apparent.

In this respect, the government should raise confidence levels by offering reliable response to the crisis. However, the new external environment seems to have completely preoccupied the Belarusian authorities, as they still have not elaborated a clear response. During the last couple of weeks different officials have stated radically different positions in respect to the exchange rate, interest rate, fiscal and wage policy. This forms a threat not only to production dynamics, but also to financial markets.

**Monetary Environment: Threats to financial stability are accruing**

The National bank of Belarus is trying to keep the USD/BYR exchange rate roughly stable to suppress inflation and lower devaluation expectations. At the same time, it needs to provide at least a stable level of price competitiveness for exporters, especially on the Russian market.

A modest depreciation and stable price competitiveness may co-exist when Belarusian and Russian rates of depreciation against the US dollar are closer to each other (or even if the Belarusian one is more significant). In this case, a stable USD/BYR exchange rate is going to be in line with domestic expectations, while a generally stable (or depreciating) RUB/BYR exchange rate is going to provide accessible level of price competitiveness on the Russian market for Belarusian companies.

Given the sharp depreciation of Russian ruble over last two months, the National Bank had to sacrifice one of its priorities. It preferred to provide a stable USD/BYR rate in
order to prevent a new wave of deposit outflows and/or deposit dollarization. A sharp appreciation in the real exchange rate vs. Russian ruble has become another element that (see Figure 2).

![Figure 2. The dynamics of real exchange rate of Belarusian ruble (January 2011=1)](image)

However, the current policy mix might not offer up a sufficient solution. External imbalances are likely to progress, which reduces the credibility of the National Bank's exchange rate policy. Further deposit dollarization is the standard response by Belarusian households in these circumstances.

According to preliminary data, the process of changing the currency of deposits was restored in October and rapidly expanded in November. Hence, the policy of modest depreciation against the US dollar is failing in respect to both priorities: the fragility of domestic financial market is growing, while external price competitiveness has been dampened.

A good solution for the National Bank assumes that the Russian ruble will stabilise shortly against the US dollar, or even appreciate somehow, compensating for its all too rapid depreciation. In this case, the National Bank can ‘catch up’ with the Russian ruble in several months time by holding a modest depreciation rate against the US dollar.

However, the Russian ruble is continuing to depreciate due to dropping oil prices. To make matters worse, oil prices may not have reached rock bottom yet. At the same time, reducing the credibility of Belarus's monetary policy requires new incentives for mitigating deposit dollarization. This would
mean that they would have to raise interest rates. But the latter will restrict output growth despite the desire of the authorities to stimulate it.

As such, a huge degree of uncertainty in respect to future path of the economy and the government’s policy was a major characteristic of the Belarusian economy in November.

Dzmitry Kruk

This article is a part of a joint project between Belarus Digest and the Belarusian Economic Research and Outreach Centre (BEROC)

Output Grows, but Inflation Hurting Macroeconomic Stability — Digest of Belarusian Economy

The economy of Belarus is showing signs of rising levels of output with most industries increasing their overall output figures throughout May. At the same time foreign and domestic investment demand are exhibiting signs of recovery.

However, this recovery does not itself necessarily signal a return to high output growth. The growth rate is likely to remain weak in the coming months and a new challenge — climbing inflation — might hurt the economy.

Output: Growth is Reviving, but Remains Poor
The Belarusian economy has entered a period of recovery (see Figure 1). Belstat reported that in January-May output grew by 1.5% (0.5% in the 1st quarter, and 1.1% in January-April). Indeed, broad positive trends in output have become more systematic and noticeable.

On the production side, major industries displayed gradual output growth across different sectors (trade, manufacturing, agriculture, electric power production) in May. Only construction and a number of manufacturing sub-industries (mainly machinery and equipment manufacturing) seem to be exceptions to this general trend.

On the demand side, an increase in investment activity and on external markets set the stage for recovery. External factors have also played an important role in Belarus' economic revival through May. In particular increased potash fertiliser exports, having recovered after demand was driven down in 2013, has become one of the most notable changes. Consumer activity remained strong, although its growth is likely to weaken in the near future due to real wages stagnating.

Despite a number of encouraging trends in the real economy, in general the overall economy's prospects have not significantly improved. Several factors are hampering its growth. First, its
poor growth potential remains one of Belarus' core issues. Even according to the most optimistic forecasts for 2014, the GDP's growth rate will remain extremely modest (up to 3% by the end of the year).

Second, financial markets and the monetary environment continue to be in a very fragile state. The authorities achieved some success in making them more stable and reducing interest rates over the past couple of months. However, they will hardly succeed in sustaining it if another shockwave ripples through the economy, especially if they fail to find a way get access new foreign loans.

Should things start to fall apart, the authorities will have to tighten their interest rate policy against a backdrop of growing inflation. However, if they are able to continue to build momentum for sustained domestic investment, which has been successful thus far thanks to reduced interest rates and increased liquidity in the banking system, they might be able to reverse this negative trend.

Third, a contraction the volume of intermediary imports has had an enormous impact on improving the environment of the nation's net exports. However, there are doubts about the origins of this shift (i.e. was it driven by the preferences of firms or was it the outcome of an administrative restriction being placed on imports) and its sustainability (i.e. can firms maintain their current levels of production if they receive fewer imported intermediate inputs).

Monetary Environment: The Threat of a New Inflation Spike

In 2013, the inflation rate steadily fell, reflecting a gradual shift in inflation forecasts (which, nevertheless, remained high and volatile), contracting domestic demand for investment and a relatively strict economic policy. Growing inflation appeared to be relatively consistent in 2014, as the majority of the factors that contribute to it persisting in
the economy.

However, recently the situation appears to have changed. Since the beginning of the year the rate of inflation has began to gain momentum with the annual CPI (consumer price index) inflation rate reaching 19% (see Figure 2) in May.

![CPI Inflation, yoy, %](image)

Administratively regulated prices for services are the main culprit. Since the beginning of the year the tariffs on utilities and transportation have grown considerably (by 20.6% and 15.5% correspondingly). In reality, raising these tariffs is sound policy, and despite the opaqueness of how the new rates were reached, it was necessary to adjust them to a more fiscally responsible and economically reasonable level.

Another contributing factor has been the government's decision to dealing with the Belarusian rubles exchange rate. Given its lack of access to external financing, along with a huge deficit of current account, they could not avoid employing this tool for mitigating the nation's currency deficit. A more rapid pace for depreciation also contributed to prices going up.

There was also a significant spike in foodstuff prices in 2014 (up 12% since the beginning of the year). Meat prices (particularly pork prices) lead the pack in terms of growth. Prices for meat and poultry grew by 25.3% from January-May,
with pork jumping 51.0%.

A substantial reduction in the nation's pig stock (due to an outbreak of African hog cholera in 2013) the primary driver behind this trend. Still, trying to explain the sharp jump in foodstuff prices in terms of African hog cholera alone seems to be misleading.

In 2014, agriculture's growth rate of costs has been considerable, making it among the leading industries of the economy. In the 1st quarter, expenses in this sector grew 25.4%, while the average rate of expenses throughout the economy was just 10.6%.

Such a pronounced growth in costs cannot be explained away by African hog cholera. The low levels of efficiency witnessed throughout agricultural sector as a result of large direct and indirect subsidies to it may provide a better explanation, or at least an alternative one, for rising costs and the subsequent price adjustments.

A new round of inflation rate hikes has developed into a serious potential threat for the national economy.

A new round of inflation rate hikes has developed into a serious potential threat for the national economy. Accelerating inflation may drive up expectations about its future direction. Alternatively, increased inflation expectations may lead to a new wave of deposits being tied to dollars. If this is the case, the authorities will have to enforce a strict interest rate policy in order to cease deposits being done in dollars, which would result in additional output losses.

Furthermore, a sharp spike in prices for a small group of goods and services (especially intermediate goods like fuel and utilities) may distort the structure of relative prices and correspondingly cause adjustments in other prices to
eliminate these distortions.

Finally, increasing prices will lead to less a lower level of competitiveness for the Belarus' producers and manufacturers. In battling to fend it off, it may become clear that a rapid pace of depreciation will become necessary. However, given the closer relationship between exchange rates and prices, the threat of a new inflation-depreciation downward spiral may arise alongside output losses.

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This article is a part of a joint project between Belarus Digest and Belarusian Economic Research and Outreach Center (BEROC)

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**A New Loan from Russia – A Temporary Lifejacket**

The growth rate of inflation in the 1st quarter of 2014 amounted to 6.6% and made plans for reaching the official targets for annual inflation highly unlikely.

Despite this, a gradual reduction in refinancing rates with a second round of cuts has been preserved. It was also accompanied fixing the maximum rate of ruble loans at a rate of 39.4% for companies.

By the end of April the international reserves of Belarus decreased by $238m, bringing them to a total of $5.477bn. This number signals the lowest amount of reserves that Belarus has seen since November and makes the problem of attracting capital all the more difficult.
However, a new loan from Russia will allow officials to postpone making any macroeconomic adjustment policy decisions for now. The authorities are not keen on introducing any unpopular reforms in a pre-election year.

**Inflation and Refinancing Rates**

Consumer prices grew by 1.6% in April, and in January-April inflation reached 6.6%. It appears rather obvious at this point that the authorities will not succeed in reaching their planned annual inflation rate of 11% and it will likely rise at least 5-6 points beyond what the government had planned for.

At the same time a reduced refinancing rate of 21.5% was set in April and May and signals the possibility of a decrease in rates for the Belarusian ruble. This move supports the decision of the National Bank of Belarus (NBB) to fix the maximum interest rates on loans to legal entities in national currency at a maximum rate of 39.4%.

This decision came into force on 8 May 2015 and will be in effect until at least till 1 January 2015. An attempt to make it easier for enterprises to access financing is the primary function of this decision. However, there is a good chance that this will boost inflation, with its already high rates.

The possibility of rising inflation together with devaluation expectations from average Belarusians may increase the volatility of national exchange rate vs. foreign currencies and decrease demand for the Belarusian ruble.
Dynamics of the currency market

Over the past months there has been a noticeable trend on the currency exchange market with U.S. dollar vs. BYR (Belarusian Ruble) finally reaching the psychologically round figure of 10000 BYR for $1.

In general the situation for the currency market remained stable, including its more negative tendencies. In recent months the smooth nominal devaluation of the Belarusian ruble has continued with the main factors influencing the situation being inflation, a decline in foreign currency reserves together with rising devaluation expectations among Belarusians.

Demand for foreign currency serves as evidence of increasing devaluation expectations. In January 2014 the net demand on foreign currency was $(−99)m, while in March 2014 it amounted to just $(−10.3)m. The situation which has developed means
that Belarus must attract external sources of financing as only the nation's meagre foreign reserves are available to prop up the Belarusian ruble.

**New Loan to Help Stabilise Foreign Currency Reserves**

In April, there were no signs of improvement with the foreign exchange reserves of Belarus. The prior downward trend did not abate and a monthly reduction to the tune of $238m hit the state's coffers, while the cumulative drop from January – April 2014 has reach a sizeable $1.2bn. At the beginning of May the total reserves sunk to $5.477bn. This reduction in the nation's currency reserves signals that Belarus has only limited resources available for the maintenance of its economy.

Belarus' inability to attract foreign investment partially explains the dip in foreign exchange reserves. According to official statistics in the 1st quarter of 2014 the net FDI in Belarus was $822m. This figure, however, is deceptive as it was likely the result of money being reinvested in the economy. In other words, there was likely no new foreign capital investment into the Belarusian economy.

However, it appears that the authorities will be able to sand off the rough edges of the current economic situation. In the beginning of May it was reported that Russia will provide a loan in order to help Belarus maintain its foreign reserves. Belarus expects to obtain the promised funds in May. The expected sum to be transferred is about $1.5bn, the remainder of a $2bn loan, that was approved by Russia at the end of last December.

Moreover, it looks like Russia’s decision to allocate the rest of the loan will be accompanied by a reduction of export duties on oil and oil-related goods. This welcome news means that Belarus may acquire a significant sum of money through
reselling the oil, though it does not come without a hitch. Russia is planning on introducing a new tax for mining operations that will raise the costs associated with delivering oil to Belarus and will mitigate the benefits that Belarus had hoped to gain through reduced export duties.

One possible reason for the generosity and pliability of Russia is to ensure that Belarus will sign the agreement on the formation of Eurasian Economic Union after negotiations felt flat in Minsk at the end of April. Nevertheless, obtaining these funds will allow the Belarusian ruble to sit at a stable level and postpone any threats of its devaluation. Taking into account that presidential elections will occur in 2015, the authorities are doing their best to prevent Belarus from facing any severe economic shocks.

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This article is a part of a joint project between Belarus Digest and Belarusian Economic Research and Outreach Center (BEROC)

External Environment Poses New Risks for the Belarusian Economy

Economic performance during first two months of 2014 has been rather disappointing. First, almost all industries reduced their output which led to a decline in GDP by 1.6% year-on-year in January-February.
Second, Belarus has faced new challenges on foreign markets, which are a consequence of capital outflows and weakening growth in Russia.

These economic shocks will deteriorate short-term prospects for Belarus, although the scope and scale of the negative impact is still not clear. Nevertheless, the government will have to react to the new environment it finds itself in, as the volume of accumulated imbalances is too high to be ignored.

**GDP Growth: Controversial Trends**

Belstat reports that in January-February GDP fell by 1.6% year-on-year. The drop in output occurred in all major industries of the economy: manufacturing, agriculture, construction. The trade sector has become the only significant exception to this trend: it witnessed 7.8% year-on-year growth thanks, in large part, to retail trade (the value added of wholesale trade was roughly constant).

A number of controversial trends were seen developing in the Belarusian economy. For instance, it can be argued that the economic downturn has become more systematic, as some large sectors (e.g. construction, agriculture) have also become members of the long-term recession club in manufacturing.

At the same time a majority of branches in manufacturing (e.g. food, chemicals, woodworking) have begun to exhibit the signs of recovery. These manufacturers have already hit rock bottom in terms of their output and are now reemerging.

Nevertheless, the latter trend does not capture a number of the largest branches of manufacturing in Belarus including the production of transportation vehicles, electric equipment, and metallurgy. Overall, from a production point-of-view, the economic environment appears to be unstable and exudes a very
low level of confidence.

When looking at demand, the only component that seems to be doing well is households consumption. It continues to provide a regular, positive contribution to GDP. For example, consider the fact that retail turnover, which is closely tied to households consumption, grew by 12.9% year-on-year In January-February.

However, this tendency seems to be more an issue of inertia than progress and can be attributed to a substantial hike in wages the previous year. Nowadays, the growth of wages has all but come to an end (see Figure 1), which is likely to diminish consumption in near future.

![Real wages (seasonally adjusted, in 2009 prices)](image)

Capital investments, on the one hand, exhibited a huge drop of roughly 20% year-on-year in January-February. On the other hand, it does not necessarily imply a further recession in investment demand, as poor performance in January-February reflected high interest rates, though the authorities intend to bolster lower rates soon, and some statistical effects.

As for foreign demand, preliminary data appears to provide an argument for it being in a state of stagnation. Hence, demand tends to be rather sluggish and there are not any options apparent to provide its rapid improvement.
Macroeconomic Policy: Less Effectiveness and More Uncertainty

Macroeconomic policy during the beginning of 2014 was, to put it crudely, roughly neutral. For its part, the government intended to stimulate demand given its poor state at present. With this in mind, the authorities proceeded to somehow reduce policy interest rates and allowed for a minimal level of depreciation of the national currency.

Still, the government is concerned with the dangers of future financial turmoil, especially given its huge external imbalances and the fragility of the state's current financial equilibrium. The National Bank has subsequently decided to restrict banking activity, while the government abandoned its policy of wage stimulation.

Overall, stagnation with a high degree of uncertainty would be a good way to characterise the current domestic macro-economic situation. Weaknesses on many different fronts created this situation, and these weaknesses interact with each other, which influences the overall state of the economy.

First, a lack of natural mechanisms for growth has become a structural constraint that reflects the absence of incentives and sources for productivity growth. Second, unfavourable and volatile expectations propagate uncertainty and result in poor demand. Third, economic policy has fallen into a trap: the low effectiveness of traditional tools, given unfavourable expectations, results in uncertainty about the priorities of any potential policy.

External Environment: New Sources of Instability

In the beginning of 2014, capital outflow from emerging markets all over the world strengthened. In the case of Russia, the relative volume of outflow exceeded the average value for emerging markets (in relative terms), as weaknesses
in Belarus' growth potential became more evident.

Furthermore, Russian involvement in the political tensions in Ukraine might have led more investors to withdraw from being exposed to Russian markets.

In this situation Russia has faced a considerable depreciation of its currency against all other major world currencies, including the US dollar against which it depreciated 10.8% in January-February. Moreover, other large CIS countries (Ukraine and Kazakhstan) also decided to undergo a round of currency devaluation as well.

As a result, the competitive environment on the markets of these countries has changed considerably. Alongside the capacity of these markets were shrinking due to their deteriorating growth prospects.

A new situation on foreign markets has created a new challenge for Belarus. Trying to restrain inflation and devaluation expectations, the National Bank preferred to follow a course of gradual depreciation in respect to US dollar, and actually ignored the devaluation happening throughout the CIS. This policy, however, led to a considerable appreciation of the national currency (see Table 1).

Table 1. The Evolution of Exchange Rate of Belarusian Rouble in January-February, %

<table>
<thead>
<tr>
<th></th>
<th>vs. Russian Rouble</th>
<th>vs. Ukrainian Hryvna</th>
<th>vs. Kazakh Tenge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belarusian Rouble</td>
<td>6.7</td>
<td>18.9</td>
<td>14.2</td>
</tr>
</tbody>
</table>

Note: The exchange rates from 1 January – 1 March.

Thus, Belarus has faced a severe external shock, which is likely to hurt its exports considerably (and promote imports from other CIS countries). The already huge external imbalance
that currently exists might increase even further, although it remains to be seen precisely what will be the effect of this phenomenon.

The economy has not yet fully felt the effects, which is rather typical, since there is usually a lag between the shock itself and its impact on the economy. For instance, the majority of foreign trade transactions that were finalised in January and February were negotiated before the shock set in. This means that the economy has yet to see the effects of the economic shock waves that hit the Belurasian economy.

Given the bulk of the already accumulated distortions, a new shock might trigger a more radical policy response by the authorities in near future. The government is doing its best to avoid intensive implementing either a policy of austerity and/or depreciation.

However, modest usage of these instruments cannot guarantee the successful neutralisation of new economic shocks. Most likely the government will try to provide rapid access to a new chunk of external financing, either due to political agreements and/or due to privatisation deals. Otherwise, automatic macro-economic adjustments in exchange rate and prices might pose a threat to Belarus.

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This article is a part of a joint project between Belarus Digest and Belarusian Economic Research and Outreach Center (BEROC)
What Policy Can The Belarusian Economy Sustain?

The official forecasts for socio-economic development in 2014 is as conservative as it has ever been: the projected GDP growth is only 3.3%. International organisations and independent forecasters are even less optimistic.

The economic authorities' plans for 2014 are also unusual. Less than two years before the next presidential election, the "pillars" of the Belarusian social contract – wages and employment – are being affected. It has been stated officially that the real wages in the budget sector will only grow in the case of layoffs.

According to official projections, employment levels will decrease in 2014 by about 3.4%, mostly through the "optimisation" of employees in state-owned enterprises and budgetary organisations. Against a background of such major changes, there are plans to significantly raise utility costs for households – a very unpopular move.

Why are the authorities adopting such measures? In 2013, the current account deficit reached alarming levels and households turned into a net buyer of foreign currency. If it had not been for tight monetary and fiscal policies, which were launched under the Joint Action Plan of the Government and the National Bank, the situation on the currency market in late 2013 could have been much more complicated.

Will the implementation of the initiatives already announced by the economic authorities be sufficient to stabilise the situation in 2014? If yes, how stable will the balance they strike be? And what happened to the economy that was called the "Eastern European Tiger" just a couple of years ago by some official media outlets?
End of economic growth

Indeed, economic growth has all but come to a halt in recent years. In 2009–2013, the average annual real GDP growth rate was only 3.2%, and this was after a 10% average annual growth rate in 2004–2008.

Even in the early 2000s, when the country was experiencing the effects of the Russian financial crisis and its own inconsistent policies, economic growth was higher (5.1% during 1999–2003). It seems that the Belarusian economy cannot grow at a rate consistent with the status of a country that is "catching up" in its development with more advanced economies.

A very simple illustration of the situation with long-term economic growth is the decomposition of the real GDP in a time series that considers both long-term trends and a cyclical element. The corresponding estimates of the IPM Research Centre show a steady decline of the long-term trends for the real GDP growth rate.

According to the most recent estimates, in December 2013 they barely exceeded 1.8% a year and five years ago (in December 2008) they reached 6.5% a year (see Figure 1). Moreover, the cyclical component of real GDP has been declining for more than two years, i.e. the authorities' attempts to revitalise the economy are not producing any real effects.

One can come to the same conclusions through an analysis
of aggregate demand. Growth in domestic demand, which was a stimulus for GDP growth over the last 10 years, is no longer having a positive effect for economic growth due to the negative contribution of net exports. Imbalances grow while the economy does not.

**Currency crises in 2009 and 2011 and imbalances in 2013**

The accumulation of imbalances provoked by "bad policies" (enhancing of growth in domestic demand through directed loans, quasi-fiscal budget operations and income policy) was the main cause of the currency crises in 2009 and 2011. Negative external shocks played an additional role both in 2007–2009 and in 2010.

Once again, Belarus is facing a series of negative external shocks. In the first half of the 2013, a decline in exports occurred as a result of 2012's high levels of re-exported Russian petroleum products.

In the second half of 2013 exports fell because of a sharp decrease in exports of potash fertilisers (due to a conflict with Uralkali, a partner in the Belarusian Potash Company) and petroleum products (Russia cut its crude oil supplies to Belarus as a result of the "potash conflict").

Finally, from 2013 to the present moment, Belarusian exports (especially exports of investment goods) suffered from stagnation/recession in the Russian economy.

External shocks, which adversely affect its exports, were accompanied by an increase in imports under the influence of a rather rapid increase in domestic demand (both in consumption and investment). As a result, the current account deficit rapidly increased during the year and exceeded 10% of GDP in 2013, which is 2 percentage points more than on the eve of the 2009 crisis (see Figure 2).
A loss of confidence in the national currency supplemented an increase in external imbalances. Again, the situation became even worse in Belarus when compared to previous crisis episodes: in the second half of 2013 very high interest rates scarcely helped to contain the outflow of Belarusian rouble deposits from the banking system, although in the beginning of 2014 the situation saw some slight improvement.

The story is as follows: the economy of Belarus entered 2014 with a high current account deficit, unstable situation in the currency market and sub-optimal monetary policy – and all this against a backdrop of an unfavourable position in external markets, especially in Russia. It seems that there are many reasons to regard the Belarusian rouble as overvalued and growth in domestic demand as too high to maintain macroeconomic stability.

**Scenarios**

From the perspective of macroeconomic stability (if we do not take into account changes in any external conditions), the possible scenarios for 2014 are tied to the country's exchange rate policy and macroeconomic (monetary and fiscal) policy.

A return to a policy of credit or fiscal expansion would ruin rather quickly the current fragile stability, there are two options left: (i) a strict macroeconomic policy with a crawling band/peg or (ii) a stringent macroeconomic policy...
with a floating currency and inflation targeting as a new nominal anchor. From the perspective of external imbalances, the efficacy of the first scenario depends on how far the economic authorities will go down the path of reducing domestic demand.

The efficacy of the second scenario depends on how successfully the transition to a flexible exchange rate regime will be supported by monetary and fiscal policy measures. Both scenarios imply a curtailment of imports and some stimulus for exports, but if there is a transition to a free-floating exchange rate the effects will be considerably stronger and faster. Both scenarios mean that the economy of Belarus will endure recession or, at least, it will not grow by the 3.3% which the official forecast envisaged.

There is one significant difference between the current situation and that of 2011. Even if the Belarusian rouble is adjusted in real terms by, let us say, 20%, it will result, according to our estimates, in about a 4% of growth in exports, which are not related to crude oil, petrol products or potash fertilisers. During a recession in Russia, even this potential effect appears to be highly debatable.

However, since a fall in exchange rates will negatively affect domestic demand (this is eloquently demonstrated by Belarus' experience in 2009 and 2011), a growth in exports will be insufficient to ensure any growth in GDP.

Will it be sustainable?

Thus, to maintain macroeconomic stability, it is desirable to combine the transition to a free floating exchange rate, backed up with a strict monetary and fiscal policy. However, even if this were to occur several important questions remain. First, a tight monetary policy implies a serious reduction in support for state-owned enterprises.

A set of restrictive measures implemented by the economic
authorities in late 2013 already led to decline in the financial status of Belarusian enterprises. Further curtailment of direct and indirect government support endangers the basic functioning of many state-owned enterprises. Accordingly, the restructuring and privatisation of state-owned enterprises will become pressing issues for the economic authorities.

It is also necessary to first improve the efficiency and flexibility of Belarus' labour and capital markets. But making the decision to start structural reforms is very difficult for the Belarusian authorities. The last currency crisis took place almost three years ago and they still have not made the "new (old) decision" in favour of reforming state-owned enterprises.

Without this choice, every possible scenario involves the risk of a return to supporting state-owned enterprises and the consequent risk of preserving of the current "model" for the economy, one which is prone to regular crisis and stagnation.

The beginning of structural reforms can improve Belarus' position in any negotiations with the IMF and other international financial institutions. Regardless, the authorities will have to launch reforms without any financial support. It remains to be seen whether the economic authorities will be able to introduce a policy that the economy can sustain.

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IMF Loans: The Money We Do Not Need?

A controversial event took place next to the International Monetary Fund (IMF) office in the middle of the summer in Washington, DC.